



Industry and Regulators Committee

Corrected oral evidence: Net zero—follow-up

Tuesday 6 February 2024

11 am

Watch the meeting

Members present: Baroness Taylor of Bolton (The Chair); Baroness Armstrong of Hill Top; Lord Best; Viscount Chandos; Lord Clement-Jones; Lord Cromwell; Lord Gilbert of Panteg; Baroness O'Grady of Upper Holloway; Viscount Thurso; Viscount Trenchard.

Evidence Session No. 1

Heard in Public

Questions 1 - 24

Witnesses

[I:](#) Claire Coutinho, Secretary of State, Department for Energy Security and Net Zero; Jeremy Pocklington, Permanent Secretary, Department for Energy Security and Net Zero.

Examination of Witnesses

Claire Coutinho and Jeremy Pocklington.

Q1 The Chair: Good morning. This is the Industry and Regulators Committee of the House of Lords. Our meeting this morning is a follow-up to the report the committee did some time ago on net zero, and our witness this morning is the Secretary of State. We are very pleased to see you here and to welcome you and your colleague. We have a range of questions following on from that report, because a lot has happened in the interim.

Perhaps I can start with a general question. In that report, there was a thought that there was insufficient co-ordination across government. One task you have been given is to improve that with your new department. Can you start by telling us how this works across government and how you feel your role is playing out?

Claire Coutinho: Yes, and thank you so much for having me. I am delighted to be here and delighted to see all you in your roles. It has been enormously successful to have a single department that looks at both energy and climate change. Not only are they two of the most important endeavours that the Government are undertaking, but because of the focus over the last few years and where we are in the transition, they also require that level of Ministerial focus. You can see from the amount of activity the department has put in place since its inception that that has worked successfully.

As for how we work across Whitehall, first, we have set out a huge amount of policy detail about transition and everything that we are trying to do on net zero. There is a Cabinet committee that looks at this, but we also work very closely with other departments. Each Secretary of State has responsibility for net zero in their area, but we look at the carbon budget process, so we work very closely with those departments to make sure that we understand what they are doing, where we can be helpful and where we can unblock things.

The other important part of the challenge is not just Whitehall but the work that we do with businesses. We have the Net Zero Council, where we are convening people to work together to make sure that government is working closely with business, along with the regular business and stakeholder engagement that we do, as you can imagine. That has been a very strong focus of mine since I came in: to make sure that industry, which has a huge amount of power to unlock progress and invest in this area, can move at pace.

Q2 The Chair: You say that you work closely with other departments—the Department for Transport is a key one here, with the push on electric vehicles and the infrastructure to sustain that—and you mention the Department for Business and Trade, which clearly works closely with industry.

We are talking about transformational change here, and the report

suggested that there needed to be strong leadership within government. Do you think you have sufficient power? Are you first among equals when it comes to making decisions about the future direction of policy?

Claire Coutinho: We have a Cabinet structure. It is important that each Cabinet Minister makes sure that they are focusing on the net-zero side of their role, which they are, and obviously I work closely with them. I will talk to the Transport Secretary about electric vehicles, for example. Some elements of that will sit with me or where I can perhaps be helpful, such as talking to DNOs. Some sit with him, but we talk closely about progress.

That is how it has to work, hand in hand, making sure that they hold priority for their responsibilities, but we are there helping them in the department. I am not sure whether Jeremy would like to add anything from a Civil Service perspective.

Jeremy Pocklington: There is extensive engagement with the key departments—the Treasury, the Cabinet Office, the Department for Business and Trade, and the Department for Transport—at all levels, from Permanent Secretary level down. In the case of transport, which you highlighted, we have the Office for Zero Emission Vehicles, which is a joint unit between the Department for Energy Security and Net Zero and the Department for Transport.

The budget is held in the Department for Transport, and that is right, because ultimately issues such as the charging network are firmly embedded with wider transport policy. That is why it is not possible to bring all these together in one department, so we have the Department for Energy Security and Net Zero in the lead, co-ordinating across government, but with individual Secretaries of State and departments responsible for their individual programmes.

Q3 The Chair: Do you get frustrated that we are trying to get more people to have electric vehicles, and yet we do not have the charging points or infrastructure to sustain that?

Claire Coutinho: First, it is important to recognise that the number of charge points has massively increased over the last few years. I see all these things as a shared endeavour. For example, I might talk to fuel suppliers and, in my conversations with them, talk about charge points at petrol forecourts, but I also need to work very closely with Mark in his role as Transport Secretary and support him.

The important thing overall is to recognise that, because of our collective work, we have come enormously far. If you look at the statistics out this morning, we are the first country in any major economy to halve emissions. That has not been an easy endeavour or a foregone conclusion, but it is because of the collaboration that we have had across government. I would say, from everything that I have seen, that it is one of the best examples of government collaboration seen outside of a war

effort. That is how we have got to this place, which is something to celebrate.

The Chair: Would you describe that as transformational or just progress?

Claire Coutinho: Being the first country of any major economy to halve emissions is pretty transformational, I would argue.

Q4 **Lord Gilbert of Panteg:** Welcome, Secretary of State, and thank you for coming to see us. Let us pick up there and look at the committee's report. The committee welcomed the Government's net-zero targets at the time and expressed concern that insufficient policy detail was in place, given that the committee felt, and all the evidence was, that action in this decade is crucial to meeting targets. You pushed back some targets last year. Was that an admission that government has made insufficient progress at exactly this point, when progress most needs to be made?

Claire Coutinho: First, no major economy has made more progress than we have. That is worth recognising. Our carbon budget process is a much more rigorous one than many other countries', but we have overshot on the first and second budgets. The data this morning shows that we have overshot on the third budget as well. Even going forward, we have more ambitious targets than any other major economy, if you look at 2030. It is hard to say that we are not ambitious enough as a country, because nobody is more ambitious than us.

On our progress so far, there have been enormous successes—for example, in clean energy—if you look at the number of homes that have been energy efficient. The work that we are doing is looking at where we can best make progress. The changes that we made in September were a very small part of the overall carbon budget, if you look at the amount of emissions, but we were protecting the consensus that we have in the country to support this agenda.

In other countries across Europe there has been disruption, because people have felt they have been pushed too far at too great a cost to themselves and to their household finances. That is what we were protecting against and, arguably, if you look at the protests that we are seeing in continental Europe, that is not happening here. We should welcome that, considering that we have, again, cut emissions more than any countries that have an economy shaped like ours.

Lord Gilbert of Panteg: So that, really, was the reason for pushing back some of the targets last year: to meet consumer resistance.

Claire Coutinho: We did not push back any climate change target overall. That is the important thing to note. We have not changed our level of ambition. Our ambition is to cut emissions by 68% by 2030. The US, I think, is at 40%. The EU is at 55%, having recently rejected a move to 57%. We have not changed the overall targets. We are still very confident that we will get there.

We moved back small elements of the plan to shield households from what we thought were going to be high costs at a time when they had already been through a difficult period, struggling with the cost of living.

Lord Gilbert of Panteg: Your war cry to the department is to be more ambitious, not more pragmatic.

Claire Coutinho: The conversation that we have in the department is focused on three things: to keep the lights on, to make sure that the British public have affordable energy, and to keep progressing on the very important climate change agenda. Sometimes these three things pull together in the same direction, sometimes we have to look at them pragmatically and make those decisions, but that is what we do as a department. It is why we are the Department for Energy Security and Net Zero.

Arguably, given that the economy has grown while we have cut emissions, we have been getting that balance in the right place. It is important that we are always vigilant about that, because we are here to make sure that we can deliver on those three ambitions, which are all important for this country.

Q5 **Lord Gilbert of Panteg:** You are very pleased with the progress that we have made. Does that make you ambitious to go further faster, or does it make you feel, "Okay, we're out in front now. We can let some others take the slack and we can relax a bit"?

Claire Coutinho: If you look at the actions we have taken since I have been in post, we have been pushing forward on renewable energy. We have set out road maps in nuclear and in carbon capture. We have set out more plans for energy efficiency. It is hard to say that we have been at all complacent. We have been very active. It has been a very busy period.

I would argue that over the last couple of years nothing has been more important for people than energy when it comes to their household finances. That is why we created the standalone department: so that we could have this high level of focus on it. Credit to the department and to my predecessors, as that is what we have been working and focusing on.

Q6 **Viscount Chandos:** In this area, even more than many others, the timescale is very long. Would you agree that where we are now reflects the decisions, good and bad, over the last 10 to 20 years, and that the decisions that are being taken now will work their way through over similar timescales?

Claire Coutinho: If you look at where we are now then, yes, of course the decisions of predecessors have been important. Something that has been transformational is the contracts for difference programme of work, which started in 2014 and massively brought down the cost of renewable energy, for example. Even with the carbon budget process, the decisions that we are making are for carbon savings in the 2030s and onwards. So, yes, part of this job is to make sure that we are looking at the energy

security and climate change transition of future generations. That is something that we work very hard on.

Q7 Lord Clement-Jones: Good morning. In our previous report, we urged the Government to set out how the energy transition will be funded, explicitly setting out the distributional consequences of any funding proposals. Could you explain how the Government intend to fund the energy transition, and do you plan to publish the Government's view of that?

Claire Coutinho: At the moment, there is a mix of bill payer, Exchequer payer and private investment. The changes that we have made in the last few months were to make sure that we are attracting as much private investment as possible. I think we have had about £30 billion since September in energy, partly because of changes that we have made on capital allowances, for example, as well as deals that we are doing internationally; we have done work with South Korea and Japan, for example, to attract foreign investment.

We have been quite clear in wanting to get that balance right. I am not sure whether Jeremy wants to come in here, but I do not think it would be possible to set out exactly what the costs are, because there are technologies that need to be innovated. We are talking about plans over decades, and we do not know exactly which of the measures that we are putting in place will be the dominant ones.

You could look at something like nuclear, where we have small modular reactors, advanced modular reactors and gigawatts. The work that we are doing now is to set out a road map to progress that entire landscape, but it would be very hard for me to say exactly which of those technologies will be the frontrunner when it comes to 2050. We know that we will need some.

Q8 Lord Clement-Jones: Can I put a bit of context around it? We concluded in our original report that funding the energy transition primarily through charges on bills was regressive compared to funding it through taxation. Have you already moved away from that approach? The costs of things such as contracts for difference, the capacity market, some energy efficiency schemes, as well as investment in the energy grid, were all levied from customers' energy bills. Are you moving away from that approach now?

Claire Coutinho: At the moment, under contracts for difference, the average amount on people's bills is about £20, but the savings are much higher. Where people are saving on their energy bills, that can make sense. We have roughly £170 of policy costs on people's electricity bills and that equates to about £200 of savings on average.

You are right. We have to get the balance right in what the Exchequer is doing. The Exchequer is investing. You could look at carbon capture, where we have set out £20 billion of investment. Crucially, the vast majority of this investment will come from the private sector. The work that we have been doing, as I just mentioned, with the capital

allowances, the grid updates, setting out road maps and regulatory frameworks, is to lever as much private investment in as possible.

Lord Clement-Jones: Could you also address the word “regressive”, or “potentially regressive”?

Jeremy Pocklington: First, the overarching objective should be to drive down the overall costs as a whole. That is what we are doing by attracting private sector investment, providing certainty and having the right business models, which means that we have an attractive cost of capital and are an attractive destination, so we can compete for the cheapest possible financing.

Secondly, we then need to get the balance right, as the Secretary of State said, between providing certainty, where appropriate, and providing the right degree of flexibility. It is important that we allow for optionality. None of us knows which technologies will be the cheapest in the 2040s, so we need to provide certainty where we can, but allow for optionality rather than setting in aspic now precisely what the plan is to get to 2050 and how best to fund it.

In terms of funding, as the Secretary of State said, there is a balance between the consumer funded elements that you mentioned and the Exchequer. My department is also spending quite considerable resources through the Exchequer, particularly on things such as energy efficiency. Those schemes, such as the social housing decarbonisation fund, often support people on lower incomes with energy bills.

It is about getting the balance right. Some of these costs are inherent to the energy system, particularly the electricity system. In those cases, it would be appropriate that they are primarily funded through energy bills. It is important to look on a case-by-case basis.

Lord Clement-Jones: You do not accept the “regressive” label, basically, which suggests that the consumer is bearing too much of the cost. For instance, we in our report called for the Government to reconsider what we saw as their opposition to the use of government borrowing for green investment. Is there a change of policy now? Do you think that borrowing could play a part in smoothing the cost of the transition?

Jeremy Pocklington: It is important to look at this in the round. As I said, the department has significantly increased the amount that it is providing through the Exchequer, so that is funded through the taxpayer or through borrowing—

Lord Clement-Jones: Some is financed through borrowing.

Jeremy Pocklington: Some is financed through the public finances, however that is financed in the short run. Where costs are directly relevant to the electricity system, it is appropriate that the bulk of those are funded through that system. It is important, though, to keep those costs in proportion. Under the price cap, the current dual fuel average bill

is £1,928, I think. As the Secretary of State said, CfDs are currently under £20 of that. Wider policy costs, including previous regimes—things such as the renewables obligation—are £157 of that. Yes, obviously we need to look at this closely and bear down on those costs, but we also need to look at this in the round.

Lord Clement-Jones: You think at the moment, Secretary of State, that you have the balance right when it comes to funding. If you looked at a pie chart, would you feel comfortable with how far the consumer is bearing the costs of transition?

Claire Coutinho: As I said, at the moment there are net savings for consumers with the amount on bills, which is important. We are also investing government funding where we want, for example, to support first-of-its-kind technology, and we are leveraging in private investment. That is the right mix.

To your question on borrowing, I do not think open-ended borrowing is the answer. We have just come through a very inflationary period. Inflation is coming down. We have seen that open-ended borrowing of very large sums that the IFS has said will drive up inflation and increase people's taxes. That is not the right thing to do. We need to do this in a fair way. Of course, there is so much going on that we always need to be vigilant, but my priority is to make sure that we can, as I said, keep the lights on, keep people's bills down and make progress with the transition. That is the balance that I have to achieve.

Q9 The Chair: Are you confident that the nuclear industry, and the vast amount of funding that it will need, will be forthcoming?

Claire Coutinho: At the moment, as you will know, we have two projects under way. We have set out a road map, which will be important, so that we do not have a stop-start approach. We are talking to investors at the moment, which is a commercial process, so you will forgive me that I will not go into that.

There is an enormous amount of support for nuclear. We set up Great British Nuclear last year to work with industry. Whether it is gigawatt projects, small modular reactor projects, for which we are arguably at the forefront of the technology, with a few other countries, or advanced nuclear technology, where, again, we have a competitive advantage, we are seeing an enormous amount of interest in this country.

The Chair: But you recognise the concern there is about the potential for investment gaps.

Claire Coutinho: The work that we have been doing is to try to create a sense of what will happen next, which is important in nuclear because, in the past, we have had this stop-start approach, and to make sure that we have the right regulation in place and are looking at things such as skills. All of that will help attract investment. It is something that we are working on. As I have just said, we are in a commercial process at the

moment, so I cannot comment on that, but I do think nuclear will be a very important part of the system going forwards.

- Q10 **Viscount Trenchard:** May I ask you, Secretary of State, why GBN's remit is confined to the electricity grid and to SMRs, rather than AMRs, some of which are more advanced than all the SMRs? They seem to be held back artificially when there is a lot that some of them could be doing much earlier.

Claire Coutinho: I am very positive about AMRs. They comprise an enormously interesting part of the nuclear landscape. At the moment, we have an SMR competition, because that technology has been more developed. However, I have spoken to people from the AMR part of the industry and have been listening to their needs and concerns.

One of the steps that we took earlier this year was to announce that we had become one of the first commercial producers of advanced nuclear fuel. There is only us and the US who have said that we will do it, outside of Russia. This will help us have a competitive advantage when it comes to AMRs, as well as consulting with businesses and looking at what regulation they might need.

We have done that because we think that AMRs will play an interesting role in the nuclear landscape for Britain and we want to make the most of the fact that we have a competitive advantage when it comes to fuel production. It is something that I am looking at very closely and that we are working to progress.

- Q11 **Lord Cromwell:** Good morning to you both. I found your opening remarks about the international comparators very helpful and even comforting, perhaps. The committee's 2022 report looked at the net-zero strategy from 2021 and it called on the Government to set out, by the end of this year, 2024, the road map, which you have referred to, to deliver a secure, decarbonised energy mix by the end of 2035.

Since then, we have had the British energy security strategy in 2022. We have had *Powering Up Britain* in 2023. In September 2023, the Prime Minister relaxed, for the reasons you have given, some of the protections in order to protect households from spending and perhaps to protect the Government from protests. Since then, again, the Climate Change Committee has had occasion to express concern about the pace of delivery here. Has sufficient, clear policy been set out now to really clarify the road map or is there more to come?

Claire Coutinho: Last year, we set out about 200 policies. It was an unprecedented amount of detail. Arguably, no country has set out as much detail as we have. It is important to get this balance right, because we want to have space for new technologies and new innovations to be part of the conversation going forward, while giving people as strong a sense as possible of where we are going and what we think the answers are.

I do not think it would be right for us to set out every policy until 2050, because it is not possible for us to completely know the future. We are trying to give people as much detail as possible based on what we know, and that is what we have done so far. Again, I would just point to the fact that very few countries have set out as much detail as we have. Very few countries are as advanced as we are.

Yes, we will always be called on to set out ever more detail, but it is also important to recognise that the Government do not completely know the future and we need to have some space for innovation. Things have emerged over the last 10 or 20 years—the decrease in the cost of renewable energy, for example—that you would not have forecast 20 years ago. It is important that we get that balance right.

Lord Cromwell: The future, of course, is always a mystery, but you do not have any imminent new things you are about to announce. You feel that we have enough policy to be going on with, if I can put it that way.

Claire Coutinho: The Government are very busy. There is a huge amount that we want to achieve, so there will always be upcoming announcements. Look at the things that we have in the works at the moment. We are working on nuclear, on SMRs and AMRs as we have discussed, as well as on carbon capture and on hydrogen. There is a huge amount of activity, so undoubtedly there will be more things that we announce coming forward as well.

Lord Cromwell: We will look forward to that. Can I just come back to the funding structures? The report also called on the Government to set out what the intended funding structures are for new technologies. I have a long list of them and you have mentioned quite a few already, so I will not bore the committee with them all.

What progress has actually been made on this? There is a chicken and an egg here. We can say it is too early for us to put funding structures in place because we do not know what the technologies will be, but quite often technologies are driven by funding opportunities. Can we not do a bit better than that? Can you give some certainty to industry as to what those funding structures would be?

Claire Coutinho: For things such as carbon capture and hydrogen, we are setting out business models. If you look at the hydrogen allocation that we did before Christmas, for example, we set out £2 billion over 15 years, to give people that sense of a business model but, as you say, we are working very closely with business, as these technologies develop. Jeremy, did you want to add something?

Jeremy Pocklington: What is striking, coming back to the report almost two years since it was published, is how much progress has been made on business models, as the Secretary of State said, across a range of key technologies. A lot of these were underpinned by the Energy Act, one of the single biggest pieces of legislation in this space in modern times.

If you look at it, for hydrogen production and CCUS the business models are in place. For nuclear, we are in a technology selection process for SMRs. Parliament has passed the RAB—regulatory asset base—legislation for gigawatt-scale plants. The Energy Act enables us to establish the future system operator, as well, to co-ordinate the energy system.

We have consultations currently under way on long-duration energy storage and on hydrogen to power. We have made very good progress on establishing the business models since the report was published. It was very prescient in that respect, but there is further work to do, which we have under way, to complete that process.

Lord Cromwell: Taking all those good things into the mix, are you therefore confident that we will get to a secure, decarbonised energy mix by 2035?

Jeremy Pocklington: We absolutely can do that. It will require continued, sustained effort over many years, but the combination of these business models, establishing the future system operator and the announcements that we made last autumn on networks, which will be a key aspect of this, leave us well placed to continue to deliver and accelerate delivery over the next few years.

Q12 **Lord Gilbert of Panteg:** Secretary of State, you clearly agree with the evidence to our previous inquiry that private investment will play a really important role in helping the Government meet its targets. Do you think investor confidence will be knocked by last year's contracts for difference auction, which received no bids from offshore wind developers?

You have talked about the contracts for difference auction. The Government were warned by the industry that the auction was not going to work. They complained about the price that it was offering. Why did you not listen to the industry? More importantly, you are clearly a learning department. What did you learn from that for the future?

Claire Coutinho: I obviously came into role just before AR5 of the auction was announced, and I would just say a couple of things. Generally, offshore wind has been an enormous success in this country. We have the top five largest operational wind farms in the world. In that year, we had 3.6 gigawatts of renewable energy. There were a record number of projects across different areas. Offshore wind had a difficult year globally. There were a lot of global challenges. We saw difficulties in many other countries as well.

If you look at what happened with the inflationary costs, we have an auction structure that runs from March to September. Much of the cost movement was then. We had already said that we were moving to an annual auction process to give people certainty about the timeline, which means that we knew we could come to another auction again. You could have completely halted that auction process and you would have put at risk the 3.6 gigawatts of renewable energy that we did have.

Since then, as the annual auction process is designed to do, we have worked very closely with industry. We have made some changes. They have been widely welcomed by the sector and the offshore wind industry in its feedback has said that the UK is in a much better position than lots of other countries.

Not only have we looked at the administrative strike price, for example, but we have been looking at supply chain constraints, which is why we have the growth industries accelerator fund. We have also been looking at the grid, which is one of the number one challenges that the sector faces. We have taken enormous steps forward there, as well as looking at changing the capital allowances regime. All those things are working in tandem to make sure that we can have a successful sector. The feedback that we have on the policies we have put in place over the last few months has been very positive.

Lord Gilbert of Panteg: Would you tell me a little bit about how you engage with the industry? At what level do you engage and how consistently? Is there a forum? Who do you engage with? If we were to ask the industry, would it say, "The Secretary of State doesn't just engage with us. She listens to us"?

Claire Coutinho: You would have to ask the industry. I would hope it would say that. It has been one of my priorities since I came into the role. In my first month, I had already met 200 industry leaders. I meet people on a regular basis, through round tables and things that we do in the department, going to events and people's conferences, and all the normal stakeholder engagement.

I try to do as much as possible, because industry, ultimately, is the solution. They are the people who are getting stuff done. It is really important that we work with them to understand the challenges that they face, the opportunities that they feel are in front of them and what government can do to unblock or to support. You would have to ask industry about its views of me, but I would hope it would say that there has been a level of high engagement.

Q13 **Baroness Armstrong of Hill Top:** Good morning. You are saying that nuclear and offshore wind will be a very important part of our future energy strategy. A big issue in both is the planning process and the length of time it is taking. Are you really content that the current planning system can deliver and ensure that, for both wind and nuclear, the targets can be met?

Claire Coutinho: Planning is undoubtedly a challenge. That is why we set out the national policy statements, to help with that process, and the policy of community benefits for onshore wind and for networks. It is really important that communities are getting a slice of the benefit when they have this energy infrastructure being built nearby. That is also designed to help with the planning process, so that communities can feel that benefit and see the worth of having energy.

At the top of my mind, I would say, yes, we need to look at planning very carefully, as well as the grid. That is where you have seen policies being put forward by us in the last few months to make sure we can unlock some of those challenges.

Q14 Baroness Armstrong of Hill Top: I want to pursue that. I represented a constituency, but left the Commons before you came in, where we had a lot of onshore wind in its early stages. Yes, we had community benefit, but there was great frustration—and there still is—that frequently the turbines do not go round. They are told by the operator, “we cannot do that”, because the grid cannot accept the stuff today.

You mentioned the national strategy, but the Electricity Networks Commissioner you appointed is saying that you have to halve the length of time that it takes to get approval, certainly for nuclear. You also have a strategic spatial energy plan. There are so many different plans and acronyms here; I think that is sometimes done deliberately, to make sure people can never understand and get hold of it all, but he is basically saying that this needs to be produced more quickly by the new future system operator—another one.

There is real frustration. I was amazed to hear you say that you are happy with where the grid is going, because most people are worried about that. What do the Government have in mind to shorten the planning process and make sure that the grid capacity is expanded?

Claire Coutinho: One reason why the grid has been under pressure is that we have connected so much renewable capacity to it.

Baroness Armstrong of Hill Top: You have been planning for years and the grid has not changed.

Claire Coutinho: This is why we appointed Nick Winser to be the Electricity Networks Commissioner and to write a report. He published that in September. We have accepted his recommendations and we are taking that forward. I recognise the grid is a challenge, but we have put a huge amount of priority on unlocking the grid. It was a big feature of the Chancellor’s Autumn Statement. I do not know whether there is any Chancellor who has mentioned the grid as much as this current Chancellor. That is the focus that we are putting on it.

You are right that there are a lot of plans, but that is because there are a lot of things that we want to do. In terms of the queue, which has been a challenge, we have the connections action plan. That has been unlocking I think 20 gigawatts of strategic investment. For the first time, we will have a geospatial plan, which the new FSO—the future system operator—will be working on. That, again, will give people line of sight of where those big grid connections will be.

At the same time, we are thinking about supply chain constraints. An element of the green industries growth accelerator that we have set out will be specifically for networks, thinking through the work that we have to do there. I also regularly meet with the TOs to talk about how we can

make as much progress as possible. There is an enormous amount of activity happening around the grid. Yes, you are right. That is at the forefront of my mind.

Ultimately, unlocking the grid unlocks the whole of our programme around electrification. We know that we have done extremely well in terms of renewable capacity, for example, and we are on the path when it comes to demand, but making sure that the grid can cope with all that demand and demand flexibility is absolutely number one priority for the department and for me.

Baroness Armstrong of Hill Top: You are content that the planning proposals you have will make a difference.

Claire Coutinho: We set out the plans in Nick Winser's report to cut the delays on average, I think, from five years to six months, and to halve the overall target from 14 years to seven years. That is what we have been working on. We have done that through the ASTI programme, which is the accelerated strategic transmission investment plan. We are working very closely in thinking through all parts of that plan, whether it is the queue, whether it is planning, whether it is having a programme for communities to benefit, whether it is supply chain constraints in terms of construction or whether it is skills.

I am not here to say that that is an easy endeavour, but we are putting a lot of effort into making sure that we can unblock the grid as quickly as possible and as quickly as the country needs.

Baroness Armstrong of Hill Top: Have the changes that keep being made about policy regarding wind farms and nuclear made it more difficult for you to make the argument that you now have a stable, consistent policy?

Claire Coutinho: Which changes do you mean?

Baroness Armstrong of Hill Top: There were changes from the coalition Government and the previous Government as to whether there was going to be onshore, whether it was all going to be offshore and whether we would go for a new nuclear programme. All those things built instability and uncertainty into the industry.

Claire Coutinho: We have set out some very long-term ambitions. For offshore wind, for example, we want to have 50 gigawatts in place; for nuclear, we want to have 24 gigawatts in place. These are plans that span decades. It is important that we have set that out, but the really key thing will be the geospatial plans, so people can have line of sight of where some of those connections will be.

That is the work that we are doing at the moment. We are taking a very strategic look at this and, as I said, it is not an easy job, but we have thought through very carefully and are putting a lot of effort into making sure that we have all the connections that we need.

Q15 Viscount Trenchard: Secretary of State, can I ask you about the new national energy system operator—NESO? Provision for it has been made in legislation. When do you expect it to be operating fully, setting out plans for the future energy system? Is it a concern that a new body will have to find its feet with just over a decade until the Government's target for a decarbonised power system in 2035?

Claire Coutinho: We are currently in commercial negotiations, but we have said that we want it to be set up by the end of the year. We are working very closely with the ESO on its set-up and are talking about the powers and structures that it will have.

Viscount Trenchard: What role do you see the new NESO playing in planning the future energy system? How will it fit into the broader energy landscape and what relationship do you foresee it having with the Government and with Ofgem? For example, does it replace the existing National Grid ESO, which I think only has a remit for the electricity grid? That accounts for only 20% of our total energy capacity.

Claire Coutinho: We are currently working on the licence. I will bring Jeremy in, because I am conscious there is a commercial discussion happening at the moment.

Jeremy Pocklington: I am very happy to talk about this. First, the national energy system operator will be built out of the system operator currently within the National Grid, the ESO. It is not entirely a new organisation. We are building out of existing expertise. That is the commercial negotiation that is under way at the moment. It will be wholly owned by government, but regulated and licensed by Ofgem.

Its core duties are set out in the Energy Act. They are about ensuring security of supply, supporting decarbonisation and promoting an efficient and economical energy network. You raised a very good question, if I may: is this just about electricity? The answer is no, but electricity remains a very important building block. It will need to cover electricity, as well as the gas grid, which will continue to play an important role, and hydrogen. Then there are also links with carbon transportation and storage, although a lot of those decisions in terms of planning will ultimately be made by the department.

Viscount Trenchard: What about industrial heat energy?

Jeremy Pocklington: There will be an important role here for having plans take place at the right level. Some of that needs to be thought about in terms of our carbon capture, usage and storage clusters. Some of it also needs to take place at a local level, rather than at a national level but, yes, the whole landscape needs to be reflected in the decisions that the system operator is looking at.

Q16 Viscount Chandos: Lord Cromwell asked about the road map. I would like to ask about the strategy and policy statement. You said, in the context of the road map, that 200 policies had been introduced last year, but that is without there being an overarching strategy or plan. The draft

does not appear to be very clear on some of the key issues, such as striking the balance between pricing for the consumer and long-term investment. Do you envisage publishing a final strategy plan to address those sorts of questions more clearly? If so, when do you think that will happen?

Claire Coutinho: We plan on publishing the strategy and policy statement. Jeremy, correct me if I am wrong, but we are expecting it this year. We did say at the time of the energy crisis that we would take a bit of time, just because the department took on a lot of roles but, as I said, even in the interim, we were setting out unprecedented levels of policy detail when it came to the net-zero plans that we are putting in place.

As we have discussed today, we have been progressing a lot of different areas because, overall, the Government have set out a direction of travel and a huge amount of detail when it comes to carbon budget processes and the net-zero strategy that you pointed to. I think we are expecting that this year.

Jeremy Pocklington: Indeed, it is well progressed and we hope to lay it soon. The strategy and policy statement will support strategic alignment between the department, the national energy system operator—NESO—Ofgem and industry, to make sure that we are all pulling in the same direction. The system operator and Ofgem will need to have regard to priorities set out in the policy statement. It will summarise a lot of the issues that we have been talking about today, but one way that it will be particularly useful is that it will have a focus on anticipatory investment and on innovation, so some of the themes we have been talking about, which will be key to delivering the decarbonisation of the electricity system.

Viscount Chandos: Is it not putting the cart before the horse, to have those 200 individual policies without a finalised strategy? In a sense, it is an invitation for those policies to be treated as an à la carte menu, with objectives and timescales changed. The strategy should surely be setting the framework that gives long-term confidence in government policy.

Jeremy Pocklington: I would not quite accept that characterisation, if I may. The strategy that we are working towards was set out in the British energy security strategy and in the *Powering Up Britain* document that we published last year. The strategy and policy statement is a very technical document that is fully aligned with what the department has been doing. All the policies that we are talking about today are rooted in the policies that the department has already set out.

Q17 **Viscount Thurso:** Good morning. Given the way the conversation has gone, I should declare an interest as a developer in a wind farm in the north of Scotland, but my question is not related to that. In line with the committee's previous recommendations, Ofgem's duties have been amended to include explicit reference to the net-zero target. What impact do you foresee this having on how they operate?

Claire Coutinho: This was put in place during the Energy Act. There will also be a growth duty and I know that Ofgem is considering very carefully at the moment the way those duties will operate. I am not sure whether Jeremy would particularly want to add anything, but the primary duty of Ofgem is of course to protect consumers. We have seen, from the nature of our work—grid investment is a good example to point to—that Ofgem has been instrumental in the other areas we are trying to address.

Jeremy Pocklington: That is correct. The net-zero duty puts a duty on Ofgem, in delivering its primary role to support existing and future consumers, to also support compliance with the Secretary of State's responsibilities under the 2008 Climate Change Act. It sounds very complex and technical, but that is what the duty actually does. It would be for GEMA, the Ofgem board, to interpret that consistent with the strategy and policy statement, but it will enable the sorts of things that we have been talking about today—for example, thinking about the anticipatory investment in networks that will be needed to deliver the renewables-heavy energy system that we need in order to deliver decarbonisation.

Q18 **Viscount Thurso:** What metrics would you expect it to develop so that you could measure whether it is doing its job according to what you have set out in statute?

Jeremy Pocklington: In reality, it will be a partnership that we have with Ofgem. It is not the case that Ofgem is directed by government. Ofgem is, as you will know, directly accountable to Parliament. It is a non-Ministerial government department. We obviously work very closely with Ofgem on the delivery of our strategy.

Viscount Thurso: The situation I am asking about, which I have seen in my involvement in the nuclear industry, is where you put a duty in a statute and you have an expectation that the duty to "have regard to" or whatever it may be will have a result. I am just really asking what result you are expecting to see and how you will measure it.

Jeremy Pocklington: I have given a very concrete example of the sorts of things that we are looking to work with Ofgem on. It is ensuring that we can build out the network that we need in a way that is efficient and gives economic value for money for current and future consumers, but also enables us to have the generation that we need in order to decarbonise the electricity system.

Viscount Thurso: Do you feel, therefore, in particular that there is enough of a steer to Ofgem on how to balance the affordability of energy bills with the need for sufficient investment? It has a primary duty to look after the interests of current and future consumers, but the needs of the current consumer, which might be about keeping bills down, and the needs of the future consumer, which might be around not burning the planet, could be in conflict.

Claire Coutinho: One thing that has a benefit for both is making sure that the grid is working. Demand flexibility, which is coming down the tracks, will enable consumers to have lower bills. It is obviously going to be more energy efficient, which meets our climate change ambitions, as well as helping with energy security. Something like the grid is a good example of where we are delivering on all those things.

We are working with Ofgem to make sure that it is allowing the investments needed to enable those savings for consumers, as well as for future consumers. It has made significant moves there. The work that it has done over the last couple of months has unlocked, I think, about £20 billion of investment in networks. That is a good example of where Ofgem is meeting all those duties and is working closely with us on that.

Viscount Thurso: If you felt that it was not achieving what you had hoped for as the Government, having the overall lead on policy, would you wish to keep its statutory objectives under review, so that it ended up achieving the objectives you felt were appropriate?

Claire Coutinho: We should look at every policy we have to make sure that our objectives are being achieved. At the moment, as I said, it is a relatively new duty. It was put in place because of the Energy Act, and Ofgem is talking very carefully at the moment about the way that will interact with its other duties.

Q19 **Lord Best:** Staying with Ofgem and its role for the consumer, the previous committee had a lot of witnesses, particularly from the energy network companies, who argued that Ofgem is overly cautious in allowing anticipatory investment in energy networks. This is needed for the net-zero transition, especially given the forecast increase in demand for electricity with the electrification of heat and transport, but there is no direct and immediate need for it now.

Consumer representatives suggested that existing price control settlements were more than sufficient. I can see that balancing these two is extremely difficult, but does Ofgem need a little bit of a steer from government to push it to take a long-term view in the way that perhaps a purely consumer perspective does not?

Claire Coutinho: As I have mentioned a few times, the grid has been an enormous focus for me in this role and these are the conversations that are happening now. The changes we have seen from Ofgem in the last few months have made it more possible to invest, which is why we have seen that £20 billion of extra investment going in. I was with industry, with some of the transition networks, last week and they were welcoming the work that we have done on accelerated strategic transmission investment. We have 26 projects and have made a lot of progress on those.

This is the work that we are doing, trying to get this balance right, but recognising that the grid is undoubtedly going to need a large amount of investment. The conversations that we are having as government with

those TOs and with Ofgem are about how we can help them unlock as much as possible, while keeping that balance in place.

Jeremy Pocklington: This is an area that has changed quite a bit since the report was published, with the ASTI programme that the Secretary of State has referred to. The holistic network design plan that underpins that is an example of where change is happening in the energy system, very much along the lines set out in your report.

Lord Best: The £20 billion investment is a pretty good indicator that you are going in the right direction.

Claire Coutinho: It is a significant move.

Q20 **Baroness O'Grady of Upper Holloway:** Secretary of State, I can just about say good morning, too. This committee's report found that retail energy companies will have to change their services, specifically helping customers through the transition by being able to spread upfront capital costs and realise value from flexibility to the energy grid. Are you satisfied with the progress that we have seen from energy companies and Ofgem on this approach?

Claire Coutinho: We look very carefully, as you will know, at the retail electricity market. There is a lot of potential there for the way people experience energy to be really revolutionised. There are some really exciting things in demand flexibility and what that will mean for customers. We talk very closely with the suppliers about what that future model would look like, but also one of the priorities has been the work they are doing to protect vulnerable customers. They have done some interesting work, but this is a shared endeavour, to make sure that together we can transition to that world where people will be able to use electricity in a different way.

Q21 **Baroness O'Grady of Upper Holloway:** Another key consideration for us has been the balance between innovation and financial regulation. We have seen suppliers go bust in recent years. Again, are you satisfied that we have got the balance right between innovation and robust financial regulation?

Claire Coutinho: It has been a difficult period, partly because of what has happened with energy prices. My primary concern is making sure that consumers have been protected. The conversations we have been having, with both Ofgem and suppliers, has looked at how those vulnerable customers, for example, are protected. The energy price cap has driven efficiency in the market, but undoubtedly there will have to be a lot of innovation in the years ahead, because the way that we experience electricity in the future system will change. I am not sure whether Jeremy would like to add anything.

Jeremy Pocklington: I agree with that. The focus during the energy crisis needed to be on ensuring that we had a supplier market that was suitably robust. Twenty-nine suppliers failed, which imposed a cost on the system. Ofgem recognised the need for a stronger system and put steps

in place to improve the financial resilience of suppliers, essentially borrowing concepts from financial services, requiring stronger balance sheets and ring-fencing certain funding in order to ensure that customer funds are better protected.

We and Ofgem are now looking more to the future. It is important to protect vulnerable consumers, as the Secretary of State said, but also to think about innovation. A few months ago, the department ran a call for evidence on innovation in the retail market. We are currently analysing responses to that, because we need a market that can adapt and bring forward new services for customers but also protect them and provide the high-quality customer support that you would expect, particularly for those who are vulnerable.

Q22 **Baroness O'Grady of Upper Holloway:** This is the last question from me and is a topical one. There was speculation in the media over the weekend about the clean heat market mechanism and targets for installations of heat pumps. The speculation was that Government were going to scrap both, in response to concerns or complaints from manufacturers about the so-called boiler tax. Will those targets and the mechanism be scrapped or not?

Claire Coutinho: I am not going to talk specifically about the policy, but let me talk about the approach that we have taken to decarbonisation of homes. This will be a very important part of the journey. We have focused an enormous amount on insulation. The number of homes that are now energy efficient has gone up to 50%, from 14% in 2010. We have also focused, for example, on developing the domestic market through the heat pump accelerator. In September we increased the boiler upgrade scheme to one of these most generous grants anywhere in Europe, taking it up to £7,500.

That has had an enormous effect. The number of applications is up 50% year on year. That is the approach we want to take, to make sure that we are giving people a helping hand. We have consulted. We are looking at it very carefully, but it is important that, when it comes to decarbonisation of people's homes, we are helping them and supporting them on that journey, enabling them to make the right choices for them and their families.

Q23 **The Chair:** Following up on the point about vulnerable consumers, you did not mention social tariffs. There has been quite a bit of concern about the lack of a social tariff. Do you think you should intervene on that, or do you think that should all be left to Ofgem?

Claire Coutinho: We are doing an enormous amount when it comes to vulnerable customers. If you look at what is happening, there are three groups of people. One group are dealing with broad-based inflationary pressures in their lives. It is not just their energy costs. It is also rent. It might be food and other costs as well. For that group of people, we have raised pensions and benefits by 6.7%, the highest amount. We have increased the national living wage to record levels.

We also have the £900 cost of living payment, recognising that for those people the cost pressures in their life will not just be one thing. It will be multiple things. We are making sure that we help them to cover those costs.

There is a second group of people who are struggling, particularly with energy costs. We have the warm homes discount, which is arguably doing exactly that, and we have increased the number of people that covers from 2 million to 3 million. These are people who are low income, but also have specific energy costs.

Then there is a third group of people who are those in problem debt. I do not have data on those people. I have talked to the fuel suppliers about them and the work that needs to be done. They do not correlate comparatively well to people on the warm homes discount, for example. The solution will need to involve suppliers working with us. I would like to see more data sharing, for example, in order to help that group of people with the government schemes as well as the suppliers' programmes.

The Chair: Have you ruled out a possible social tariff?

Claire Coutinho: As I said, with the three different groups, we are acting in all those spaces. For people who have broad-based cost pressures in their lives, we are acting and making sure that they have funds. For people who have problems with energy costs specifically, we have a programme on the warm homes discount. We are working very closely with suppliers on how to help people who are in problem debt as well.

The Chair: Thinking about consumers and the challenges they are facing—you have talked about some of the schemes—do you think that most of us are sufficiently aware of the changes we will have to make? Do you think what government is doing is sufficient to educate us?

Claire Coutinho: Government is doing an enormous amount. We have different communications programmes, whether on energy efficiency or otherwise, and this is ongoing work. It is not just going to be government alone. We work with industry and other stakeholders. We talk to people about the plans that we have in place. There is an enormous amount going on when it comes to communication.

The Chair: We also see a backlash on occasions. You have a council trying to introduce a low emissions scheme and politicians of different parties, perhaps, exploit that and do not try to educate the public.

Claire Coutinho: If you are thinking about something like ULEZ—which I think you might be tangentially referring to—

The Chair: Different cities have different plans.

Claire Coutinho: As somebody who is a constituency MP on the edge of ULEZ, I can go to a primary school and those primary school children will raise ULEZ with me. That is not because of politicians. That is because of their parents, who are struggling to afford that charge.

The Chair: They have been informed by politicians.

Claire Coutinho: People do not need politicians to inform them that they are paying an extra £12.50 a day. They recognise those costs for themselves. Particularly if they are low income, they will recognise that in a very painful way. Arguably, the job of politicians is to protect the consensus of this agenda, which means that people cannot feel overburdened by the cost of net zero. We need to make sure that people feel optimistic about the plans that we are putting in place and that is the careful path that we are charting as government.

Q24 **The Chair:** We will see where that ends. Finally, you mentioned that it is one of your objectives to keep the lights on. Given the problems with the grid and the grid capacity, which are very serious—and incredibly serious for some industries that want to have very large-scale consumption programmes in the future—and given the problems that we have for example with the lack of gas storage, because the Government have cut that in the past, are you confident?

Claire Coutinho: Yes. We have just been through an enormously challenging period when it comes to energy resilience. If you think about the last couple of years, there have been challenges with European gas storage and challenges with French nuclear, but we were able to make sure that we had UK supply. We actually increased our electricity exports and our gas exports to continental Europe during that time. That shows the current resilience and security of the market, but of course we are always looking at this area.

We work very closely with other countries and have plans in place for the future. I would say that we have been stress tested quite considerably over the last couple of years. This year, for example, for the winter we are just coming through, our margins across both electricity and gas were higher than they were in previous years, which makes me feel confident. In the years where it was extremely challenging, we could keep the lights on. At the moment, we are in quite a good place when it comes to security of supply.

The Chair: That ends our question session, so thank you very much to both of you for coming along this morning.